

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LAGOS 14237 230905Z  
ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01  
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00  
FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01  
PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00  
ACDA-07 PA-01 PRS-01 /133 W  
----- 103594 /15

R 221514Z DEC 76  
FM AMEMBASSY LAGOS  
TO SECSTATE WASHDC 8365  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY ALGIERS  
USINT BAGHDAD  
AMEMBASSY BEIRUT  
AMEMBASSY CARACAS  
AMEMBASSY DOHA  
AMEMBASSY JAKARTA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY LIBREVILLE  
AMEMBASSY LONDON  
AMEMBASSY QUITO  
AMEMBASSY TEHRAN  
AMEMBASSY THE HAGUE  
AMEMBASSY TRIPOLI  
AMEMBASSY VIENNA

LIMITED OFFICIAL USE LAGOS 14237

E. O. 11652: N/A  
TAGS: ENRG, NI  
SUBJ: OIL COMPANY REACTIONS TO TWO-TIER OPEC PRICE

REF : LAGOS 14203

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LAGOS 14237 230905Z

1. OIL PRODUCING COMPANIES STUDYING IMPLICATIONS FOR THEM OF  
LATEST OPEC PRICE DECISION. MOST THINK COMMISSIONER OF PETROLEUM  
RESOURCES BUHARI DEMONSTRATED MODERATE ATTITUDE AND GOOD GRASP  
OF FACTS OF INTERNATIONAL PETROLEUM SITUATION IN HIS PRESS  
CONFERENCE DEC. 21.

2. COMPANY OFFICIALS AGREE WITH BUHARI'S OBSERVATION THAT IT WILL BE AT LEAST TWO OR THREE MONTHS BEFORE SAUDI ARABIA CAN INCREASE PRODUCTION SIGNIFICANTLY ABOVE PRESENT LEVELS, IN MEANTIME, THEY EXPECT THAT CRUDE OIL PRICES WILL HAVE WORKED THEMSELVES OUT IN ACCORDANCE WITH MARKET FORCES UNTIL THERE WILL NO LONGER BE A TWO-TIER PRICE SYSTEM IN ANYTHING BUT NAME.

3. COMPANIES HAVE RECEIVED NO INDICATION FROM FMG YET ON SPECIFIC PRICES FOR FIRST QUARTER 1977. AFTER OCTOBER 1975 OPEC PRICE INCREASE, NIGERIA SIMPLY ADDED ONE DOLLAR DIFFERENTIAL TO NEW PRICE OF SAUDI ARABIAN MARKER CRUDE. SINCE THEN, NIGERIAN PRICE HAS BEEN INCREASED IN QUARTERLY INCREMENTS UNTIL DIFFERENTIAL BETWEEN 34 API NIGERIAN CRUDE AND SAUDI MARKER IS NOW DOLLARS 1.65. FMG COULD CALCULATE NEW PRICE BY INCREASING FORMER SAUDI MARKER 10 PERCENT TO DOLLARS 12.66 AND ADDING PRESENT DIFFERENTIAL, MAKING NIGERIAN PRICE DOLLARS 14.31. THIS WOULD BE DOLLARS 1.15 ABOVE PRESENT PRICE, WHICH IN FACT WOULD REPRESENT ONLY 8.7 PERCENT INCREASE. SINCE SOME OPEC SOURCES HAVE SAID TWO-TIER PRICE DECISION RENDERS DIFFERENTIAL STRUCTURE USELESS ANYWAY, FMG, WHILE INSISTING THAT IT BASING PRICE ON TEN PERCENT INCREASE IN MARKER CRUDE VALUE, COULD ALSO ADD WHATEVER LOWER DIFFERENTIAL IT JUDGED NECESSARY TO KEEP NIGERIAN CRUDE COMPETITIVE IN WORLD MARKETS. NET RESULT MIGHT EVEN BE OVERALL INCREASE OF ONLY FIVE PERCENT.

4. COMPANY OFFICIALS ALSO AGREE WITH BUHARI'S OPINION THAT NIGERIA OIL NOT ALWAYS SUBSTITUTABLE AND BECAUSE PURCHASERS ARE MINDFUL OF LONG-TERM SECURITY OF SUPPLY. GULF OIL MANAGING DIRECTOR NOTED GULF'S 100,000 B/D PHILADELPHIA REFINERY IS GEARED TO SWEET LIGHT CRUDES AND CANNOT PROCESS SAUDI LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LAGOS 14237 230905Z

OIL. SHELL-BP MANAGING DIRECTOR OBSERVED THAT MANY REFINERS IN EUROPE WHO USE NIGERIAN CRUDE FOR PETROCHEMICAL FEED-STOCKS IN SIMILAR SITUATION. NO COMPANY SEEMS TO BE IN ANY GREAT HURRY TO TERMINATE CONTRACTS FOR NIGERIAN CRUDE. COMPANY OFFICIALS FEEL THAT BUHARI'S WARNING THAT NIGERIA QUOTE WILL DO UNTO OUR CUSTOMERS AS THEY DO UNTO US UNQUOTE, WITH ITS IMPLICATION THAT ANY BUYERS WHO DROP OUT NOW WILL NOT BE ALLOWED BACK IN LATER, IS INDEED AN EFFECTIVE DISSUASION. IF EVERYONE STOPPED BUYING NIGERIAN CRUDE SIMULTANEOUSLY, NIGERIA WOULD OF COURSE HAVE TO WOO OLD CUSTOMERS BACK. BUT, AS COMPANY OFFICIALS SEE IT, SUCH COORDINATION IMPOSSIBLE. SINCE NIGERIA COULD WELL AFFORD TO FREEZE OUT FIRST ONE OR TWO PURCHASERS WHO SHIFTED ALLEGIANCES, NO ONE WILL WANT TO RISK BEING THE FIRST.

5. WHAT MANY COMPANIES ARE CONCERNED ABOUT IS THAT AS THEY CONTINUE TO LIFT NIGERIAN CRUDE WHILE INTERNATIONAL MARKET WORKS OUT PRICES, THEY WILL AT LEAST FOR SOME PERIOD OF TIME

BE FORCED TO ABSORB LOSSES IN SELLING THIS CRUDE OR ITS PRODUCTS IN COMPETITION WITH LOWER PRICED SAUDI CRUDE. GULF OIL MANAGER POINTED OUT THAT A SUDDEN FIVE PERCENT SHIFT IN RELATIVE COSTS OF SAUDI AND NIGERIAN CRUDE WOULD JUST ABOUT WIPE OUT 70 CENT PER BARREL PROFIT MARGIN COMPANIES GET ON EQUITY OIL AND WOULD TURN 33 CENT PER BARREL PROFIT ON ALL BARRELS LIFTED INTO OUTRIGHT LOSS.

6. LASTLY, CONFUSION OVER PRICES AND POSSIBILITY THAT INCREASED SAUDI PRODUCTION MIGHT CAUSE CUTBACK IN NIGERIAN PRODUCTION DIMINISH PROSPECTS THAT LONG ANTICIPATED ANNOUNCEMENT BY FMG OF NEW FISCAL INCENTIVES WILL LEAD TO RAPID RESUMPTION OF INVESTMENT BY COMPANIES IN DEVELOPMENT OF NEW PRODUCTION CAPACITY, EVEN IF INCENTIVES PROVE ATTRACTIVE. COMPANIES WITH ACCESS TO SAUDI CRUDE, LIKE MOBIL AND TEXACO, MAY FEEL LESS NEED TO RESPOND TO NIGERIAN OFFERS, WHILE COMPANIES WITHOUT SAUDI CRUDE, LIKE GULF AND SHELL-BP, MAY HAVE TO BE MORE COOPERATIVE. DEPENDING ON HOW DETERMINED FMG WILL BE TO GET NEW INVESTMENT GOING AGAIN, IT POSSIBLE THAT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LAGOS 14237 230905Z

SUCH DISTINCTIONS COULD LEAD TO FULL NATIONALIZATION OF RECALCITRANT COMPANIES, A STEP WHICH MANY OIL COMPANY OFFICIALS ARE NOW SAYING THEY WOULD WELCOME.  
EASUM

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, BUSINESS FIRMS, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 DEC 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LAGOS14237  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760470-1142  
**From:** LAGOS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19761221/aaaaarvc.tel  
**Line Count:** 143  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 LAGOS 14203  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 31 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <31 MAR 2004 by hartledg>; APPROVED <06 APR 2004 by morefirh>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** OIL COMPANY REACTIONS TO TWO-TIER OPEC PRICE  
**TAGS:** ENRG, NI, OPEC  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006